iii. Pharmaceutical consultant;

iv. Non-legend drugs;

v. Medical supplies;

vi. Social services;

vii. Oxygen.

(d) Reasonableness limits for medical supplies and patient activities will be established at:

1. 150 percent of the median per diem cost of Class I NFs which had over 20 percent Medicaid days in the base period.

2. 150 percent of the median per diem cost of Class II NFs which had over 20 percent Medicaid days in the base period.

3. 150 percent of the median per diem cost for each type of Class III NF, excluding any facility without reported costs.

4. For Class III NFs which are approved as a combination of ventilator/respirator type and some other SCNF type listed at section 3.3(a)3ii, the reasonable limit for medical supplies will be determined by multiplying applicable patient days (ventilator patient days versus a non-ventilator/respirator SCNF-type patient days) times the appropriate medical supplies screen (ventilator versus a non-ventilator/respirator SCNF type) and adding the products, as follows:

	(1) Base Period Patient Days	(2) Limit Per Day	(3) Total (1) x (2)
Vent	A	C	E
Other	B	D	F
Total reasonable limit (E+F)			G

(e) Reasonableness limits for medical director, pharmaceutical consultant, non-legend drugs, social services and oxygen will be established at:

1. 110 percent of the median per diem cost of Class I NFs which had over 20 percent Medicaid days in the base period.

2. 100 percent of the median per diem cost of Class II NFs which had over 20 percent Medicaid days in the base period.

3. 110 percent of the median per diem cost for each type of Class III NF, excluding any facility without reported costs, except as provided in (e)3i and ii below.

   i. For freestanding SCNFs, a separate medical director screen will be calculated for each type of SCNF.

4. For Class III NFs which are approved as a combination of a ventilator/respirator type and some other SCNF type listed at section 3.3(a)3, reasonable limits for oxygen will be determined by multiplying applicable patient days (ventilator patient days versus a non-ventilator/respirator SCNF type patient days) times the appropriate oxygen screen (ventilator versus a non-ventilator/respirator type SCNF) and adding the products, as follows:

	(1) Base Period Patient Days	(2) Limit Per Day	(3) Total (1) x (2)
Vent	A	C	E
Other	B	D	F
Total reasonable limit (E+F)			G

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(f) Where actual base period costs for routine patient care are below the limits established, the actual costs will be included in the rate base. The Department of Health, Health Facilities Inspection, will be notified of all cases where a NF's patient care costs per day are less than 75 percent of the limits in (b)7 above and of all cases where nursing hours worked appear to be below State standards.

3.10 Property - capital costs (including Return on Investment (ROI))

(a) Included in this category are the following rate components:

1. Depreciation (except autos);

2. Maintenance and replacement of plant and equipment;

3. Rentals of building and equipment (except automobiles);
4. Interest on all indebtedness;
5. Amortization of leasehold improvement;
6. Property insurance costs;
7. Fees and other expenses incurred in connection with the construction, purchase, alteration or leasing of land, buildings, and fixed equipment; and
8. Fees and other expenses incurred in financing or refinancing of the NF itself or any of its assets.

(b) The guidelines below have been developed with the following objectives and considerations:

1. The Medicaid program should not be concerned with the method and attendant costs with which individual NFs are financed and constructed or the arrangements under which they are required or leased.

are acquired or leased.

2. While not concerning itself about the costs, financing and so forth, of individual NFs, the Medicaid program's mandate with respect to the reasonableness of cost requires it to develop this rate component upon the presumption of reasonable facility costs and prudent financing.

3. Private capital should be attracted into the industry. The certificate of need process controls the supply of NFs in relation to demand, and thus removes several risks inherent in most free enterprise situations.

(c) The Medicaid program believes that the above objectives can best be met by establishing an aggregate "capital facilities allowance" (CFA). The aggregate annual CFA for building, land, and movable equipment shall constitute the maximum reasonable reimbursement for depreciation (except automobiles), rentals of buildings and equipment (except automobiles), interest on all indebtedness and amortization of leasehold improvements. Reimbursement shall be limited to the lower of:

1. The total actual NF expenses for depreciation, interest and rental or;

2. The aggregate capital facilities allowance for building, land, and movable equipment.

(d) The following considerations will be addressed in determining the CFA:

1. Buildings (see section 3.11);

2. Land and land improvements (see section 3.12);

3. Equipment (routine moveable) (see section 3.13);

4. Maintenance and replacements (see section 3.14);

5. Property insurance (see section 3.15);

6. Economic occupancy level (see section 3.16).

3.11 Buildings and fixed equipment

(a) The CFA for buildings and fixed equipment will be based upon appraised value as follows:

1. For NFs beginning operation before January 1, 1978, the CFA will be determined based upon appraised 1977 replacement costs derived from nationally recognized construction cost manuals, less wear and tear and subject to reasonableness limits as described in (c), (d) and (e) below.

2. For NFs, or significant additions to existing NFs, beginning operation on or after January 1, 1978, the appraised value will be determined at the time construction is completed, based upon price levels derived from nationally recognized construction cost manuals, subject to reasonableness limits as described in (c), (d) and (e) below.

(b) The appraisals are to be conducted by an agent designated by the State.

(c) Reasonableness limits on plant square feet will be set at 110 percent of the median plant square feet per available bed of all proprietary and voluntary NFs which had over 20 percent Medicaid patient days in the base period. Separate reasonableness limits will be developed for governmental NFs by the same method. NFs not substantially complying with current State and Federal space requirements or carrying space waivers will be excluded from this calculation.

(d) A reasonableness limit on appraised value per square foot will be established as follows:

1. For NFs beginning operation before January 1, 1978, at 110 percent of the median appraised value, at 1977 price levels, of proprietary and voluntary NFs which had over 20 percent Medicaid days in the base period;

2. For NFs beginning operation on or between January 1, 1978, and December 31, 1984, at the original reasonableness limit as determined from (d) 1. above, increased for inflation by 15 percent for the first year and 10 percent for each succeeding year.

3. For facilities beginning operation on or after January 1, 1985, at the reasonableness limit determined for 1984, incremented annually by a factor for inflation which is the average of

percentages representing cost increases derived from:

i. The Marshall Swift Valuation Index for the Eastern District; published by Marshall and Swift, 1617 Beverly Blvd., P.O. Box 26307, Los Angeles, California; and

ii. Inflation factors published by the U.S. Department of Labor, Bureau of Labor Statistics for New York and Northeastern New Jersey;

4. For significant additions to existing NFs beginning operation since January 1, 1978, at the original reasonableness limit as determined from (d)1. above, increased by a factor for inflation (see (d)2. above). A single weighted reasonableness limit for the entire NF will be calculated based upon the square footage and the corresponding construction cost factors of the building as originally appraised and the appraised addition(s); and

5. A separate reasonableness limit will be developed for governmental NFs by the same method.

(e) The reasonable limits as described above will be combined to allow for square feet in excess of that established limit where value per square foot is less than that limit for each class of nursing facility.

(f) The CFA for buildings and fixed equipment will be determined by applying the appropriate interest or amortization rate, described in (f)1. and 2. below, to the reasonable appraised value of the building and fixed equipment.

1. Interest rate:

i. For NFs beginning operation before January 1, 1978, the interest rate is equal to the Medicare return on equity rate for the 12 month period ending with December of 1976 (10.719 percent).

ii. For NFs, or significant additions to existing NFs, beginning operation between January 1, 1978 and September 30, 1985, the interest rate is equal to Medicare return on equity rate published at the inception of operations.

iii. For NFs, or significant additions to existing NFs, beginning operations between October 1, 1985 and September 30, 1993, the interest rate is equal to 150 percent of the Medicare return on equity rate published at the inception of operations.

iv. For NFs, or significant additions to existing NFs beginning operations on or after October 1, 1993, the interest rate is equal to 150 percent of the applicable interest rate at